

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for staff-assisted rate case in Polk County by Bieber Enterprises, Inc. d/b/a Breeze Hill Utilities.

DOCKET NO. 990356-WS
ORDER NO. PSC-99-2394-FOF-WS
ISSUED: December 7, 1999

The following Commissioners participated in the disposition of this matter:

JOE GARCIA, Chairman
J. TERRY DEASON
SUSAN F. CLARK
E. LEON JACOBS, JR.

ORDER GRANTING TEMPORARY RATES IN THE EVENT OF A PROTEST AND
DECLINING TO INITIATE SHOW CAUSE PROCEEDINGS
AND
NOTICE OF PROPOSED AGENCY ACTION ORDER APPROVING INCREASE IN
RATES AND CHARGES

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein, except for the granting of temporary rates, subject to refund, in the event of a protest and decision not to initiate a show cause proceeding, is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

BACKGROUND

Breeze Hill Utilities, Inc. (Breeze Hill or utility) is a Class C utility that provides water and wastewater service to 117 customers (116 residential and one general service customer) in Polk County (County). On May 14, 1996, the Polk County Board of County Commissioners adopted a resolution that made the utilities in the County subject to the jurisdiction of this Commission. The resolution was acknowledged by this Commission by Order No. PSC-96-0896-FOF-WS, issued July 11, 1996, in Docket No. 960674-WS. By Order No. PSC-98-1550-FOF-WS, issued November 23, 1998, in Docket No. 971192-WS, we granted Certificates Nos. 598-W and 513-S to Bieber Enterprises, Inc. d/b/a Breeze Hill Utilities.

DOCUMENT NUMBER-DATE

14912 DEC-7 99

FPSC-RECORDS/REPORTING

On March 18, 1999, the utility applied for this staff-assisted rate case pursuant to Section 367.0814, Florida Statutes. We have processed one pass-through rate adjustment for the utility which enabled it to pass-through regulatory assessment fees when the utility came under our jurisdiction. By letter dated April 16, 1999, the utility was deemed eligible for a staff-assisted rate case. The utility paid its filing fee on May 14, 1999.

In its application, the utility requested an increase in water and wastewater rates. We audited the utility's records for compliance with our rules and orders and examined all components necessary for rate setting. A staff engineer conducted a field investigation, which included a visual inspection of the water and wastewater facilities along with the service area. The utility's operating expenses, maps, files, and rate application were also reviewed to determine reasonableness of maintenance expenses, regulatory compliance, utility plant in service (UPIS), and quality of service.

A customer meeting was conducted on October 6, 1999, at the Breeze Hill Clubhouse in Lake Wales, Florida, to obtain information concerning quality of service and to allow customers an opportunity to provide other comments. This meeting is discussed in greater detail below.

A historical test year ended December 31, 1998, was selected for this case. Adjusted test year revenues are \$14,784 for the water system and \$10,752 for the wastewater system. Adjusted operating expenses are \$25,101 for water and \$31,277 for wastewater. These amounts resulted in operating losses of \$10,317 and \$20,525, respectively.

QUALITY OF SERVICE

The overall quality of service provided by the utility is derived from the evaluation of three separate components of water and wastewater utility operations: (1) Quality of the utility's product; (2) Operational condition of the utility's plant or facilities; and (3) Customer satisfaction.

Quality of Utility's Product

In Polk County, privately owned potable water systems are regulated by the Polk County Health Department (PCHD). According to the PCHD, the utility is currently up-to-date with all chemical analyses and all test results are satisfactory. The utility

provides water which meets or exceeds all standards for safe, potable water.

Wastewater facilities are regulated by the Southwest District of the Department of Environmental Protection (DEP), which is located in Tampa. The utility's operating permit was issued on January 11, 1995, and expires on January 2, 2000. There are no outstanding violations or citations, and the utility has complied with all testing/analyses. All test results were satisfactory. The quality of wastewater service meets or exceeds regulatory standards.

Operational Condition of the Utility's Plant or Facilities

The quality of the UPIS is generally reflective of the quality of the utility's product. The water plant is a simple system with one well, a disinfection system and a pressure tank. It is the tank that has been, and continues to be, a point of concern. This rate case began not only from the need to obtain compensatory rates, but also from the need to replace the hydro-pneumatic tank at the water treatment plant. When the current owner took over the water system in June, 1997, the water tank was badly rusted and pitted, sufficient to cause leaking. In January, 1998, the County inspector performed a Sanitary Survey Report. The tank was cited and the utility was instructed to replace the tank within 30 days. Needing more than 30 days to replace the tank, the utility requested a second opinion from a registered engineer. It was the opinion of Mr. Ernest P. West, Florida Registered Engineer, that the tank and supports had been spot welded and painted, and that the premises were clean and sanitary. The County accepted Mr. West's opinion and waived the 30 day deadline to replace the tank. The utility filed for rate relief on March 18, 1999. During the course of the rate case, the utility requested pro forma allowances to replace the tank. On October 8, 1999, at approximately 4:00 a.m., the tank exploded. In accordance with Rule 25-30.251(2), Florida Administrative Code, the utility notified the Commission of the service interruption at 7:30 a.m. on October 8, 1999. An examination of the ruptured tank showed that the tank could not be repaired. As a temporary measure to provide water service to its customers during this emergency, the utility installed two 300 gallon tanks. Water was restored by 7:00 p.m. on October 8, 1999, under a boil water notice, and with no irrigation conditions. This situation is temporary, and speeds the tank replacement. Based on the foregoing, we find that the utility owner has exhibited a good faith effort sufficient to consider UPIS to be satisfactory.

The wastewater UPIS is reflected by the product's testing and analyses results. The overall capacity of the wastewater plant is 40,000 gallons per day, which is sufficient to process the typical flows of the Breeze Hill customer base. The wastewater plant is located in an open area near the clubhouse and boat dock and is in plain view of the public. Appearances at the plant were satisfactory and no foul or obnoxious odors were detected during the engineering investigation. Based on the foregoing, we find that the quality of the wastewater UPIS is satisfactory.

Customer Satisfaction

Three customer meetings were held on October 6, 1999, in the service territory at the Breeze Hill Club House. The meetings were held at 2:00 p.m., 4:00 p.m., and 6:00 p.m. At the first meeting, held at 2:00 p.m., a group of homeowners, known as the Nineteen Club, discussed several reasons why they believe the total charges for water and wastewater services should remain at \$19 per month. At the second meeting, held at 4:00 p.m., the group of customers representing the Homeowners' Association expressed their concerns with the amount of the increase proposed in our staff's preliminary report. They reviewed the preliminary report with our staff, point by point. They also presented a memorandum to the staff which listed specific items the residents wanted staff to consider, including:

- 1) Possible leaks in the system - The utility has contacted the Florida Rural Water Association to examine Breeze Hill's system to determine if there are any water leaks.

- 2) Possible duplication of cost recovery - The utility owner also owns the mobile home park which charges a monthly maintenance fee to residents for upkeep of the park, clubhouse and pool. The association was concerned that the clubhouse and pool area water and wastewater service continue to be provided by the park owner as stated in their maintenance agreement. The clubhouse and pool area will be metered with a 2" water meter, and the park owner will be the customer of record.

Another concern was grass cutting provided in the residents' monthly maintenance fee as opposed to an allowance made in this rate case for mowing and grounds keeping of the utility property. We have approved an amount for mowing and grounds keeping for only the utility property which includes the water plant, wastewater plant, and percolation ponds. The association also questioned the cost included for a utility office. We have considered that the

office is used for other business and have allocated the office expense between the utility and the mobile home park on a 50-50 basis.

3) Margin Reserve - The association believed that some of the vacant lots are unusable and should not be considered in the margin reserve calculation. The vacant lots, by the association's own admission, may be usable if sold at bargain prices. We have calculated margin reserve based on historical growth, potential lots available in the park, and the new 5-year margin reserve statute, Section 367.081, Florida Statutes. The present systems are capable of handling future customers to build-out of the park.

4) Definition of an ERC - Rule 25-30.515(8), Florida Administrative Code, defines an Equivalent Residential Connection (ERC) as: (a) 350 gallons per day; (b) The number of gallons a utility demonstrates is the average daily flow for a single residential unit; or (c) The number of gallons which has been approved by DEP for a single residential unit. In the case of Breeze Hill Mobile Home Park, we have calculated that one mobile home equals .8 ERCs.

Sixty-eight residents and two utility personnel were in attendance at the 6:00 p.m. meeting. Eight customers commented about the increase of service rates. All eight customers were concerned with the rates being unfairly inflated. Several of the customers expressed concern over the use of the twelve-month test period being in a drought year, which caused the numbers for water use to be inflated. Another situation that was mentioned by several customers was the excessive water use by some customers. One customer mentioned that the water pressure was too low.

It is suspected that the high use of water during the drought season caused a temporary reduction in pressure. According to the PCHD, the utility provides water system pressure that meets or exceeds the minimum standard of 20 pounds per square inch. Lower than normal water pressure cannot be avoided even in a larger system during periods of dry weather and heavy water use. When this occurs, water use must be restricted for conservation and pressure reasons. According to the utility owner, restrictions were discussed with the residents, but had not been administered.

The replacement of the hydro-pneumatic tank with a larger tank will increase the storage capacity and assist in the consistency of any pressure fluctuations. We find it appropriate to allow 180 days from the effective date of this Order for the utility to

ORDER NO. PSC-99-2394-FOF-WS
DOCKET NO. 990356-WS
PAGE 6

complete the tank replacement. The utility shall report to this Commission, in writing, within 180 days of the effective date of this Order that the tank has been replaced.

All things considered, we find that the quality of service for the water system and the wastewater system is satisfactory.

RATE BASE

Our calculation of the appropriate rate base for the purpose of this proceeding is depicted on Schedules Nos. 1-A and 1-B, and our adjustments are itemized on Schedule No. 1-C. Those adjustments which are self-explanatory or which are essentially mechanical in nature are reflected on those schedules without further discussion in the body of this Order. The major adjustments are discussed below.

Margin Reserve

In accordance with Section 367.081(2)(a)2.b., Florida Statutes, the period needed to serve current customers is five years after the test year. A five year period has been used in the margin reserve calculations as an approved construction period. The growth rate calculated in each margin reserve calculation is less than the maximum allowed of 5% per year.

Our calculations for margin reserve are based upon the average growth in ERCs over the last five years. Breeze Hill has shown an average yearly customer growth over the past five years of three ERCs which was calculated using the average mean method. Based on this growth factor, we are allowing a 33 gpm margin reserve for the water treatment plant, a 4,924 gallon per day margin reserve for the wastewater treatment plant, and 15 ERCs margin reserve for both the water distribution and the wastewater collection systems as shown in Attachments A and B.

Used and Useful

Water Treatment Plant

The water treatment plant is a closed system with one 6" well equipped with a 10 horsepower (hp) vertical turbine pump that resources the ground water table at a rate of 200 gallons per minute (gpm). The used and useful calculation was achieved by a comparison study of the minimum standard of 1.1 gpm in accordance with General Waterworks Design Criteria to the number of customer

connections. This standard is backed by the American Water Works Association (AWWA), and is recommended to be met by the lowest capacity well. Since this system has only one well, the actual capacity of 200 gpm was used. Customer growth has been gradual over the last five years with an average growth rate of 4 customers per year (estimated at 3 ERCs per year). In accordance with the formula approach which is used as an indicator of useful plant, the water plant is considered 100% used and useful without any consideration for the four fire hydrants located in the subdivision. It is unlikely that Breeze Hill's service area will ever contain 350 persons to meet the DEP requirement (Rule 62-555.315 (1), Florida Administrative Code) for a second well, however, should the utility plan to utilize the fire hydrants, a second well should be considered. By the formula, the water treatment plant is 100% used and useful. (See Attachment A)

Water Distribution System

The water distribution system has the potential of serving 131 customers (estimated to be 105 ERCs) without the construction of additional distribution mains. The average number of customers served during the test year was 115 customers (estimated to be 92 ERCs). Growth over the past five years has been 4 customers per year (estimated to be 3 ERCs), per simple average. In accordance with the formula approach which is used as an indicator of useful plant, the distribution system is 100% used and useful for this rate proceeding. (See Attachment B)

Wastewater Treatment Plant

The wastewater treatment plant is constructed to process 40,000 gallons per day (gpd) operating in the extended aeration mode of treatment. Flows are measured by a meter at the effluent lift station which meters treated water flow transported to the percolation ponds from the plant. During January, February and March of the test year, the highest consecutive five day average found in each month exceeded the plant capacity. From July, 1998, through September, 1998, the utility surveyed and made repairs to manholes that were suspected sources of infiltration. During the last quarter of the test year, the quarterly average daily flow was 19,470 gpd. Also used in the calculation is the average growth rate of 3 ERCs per year. Based on the formula method of calculating used and useful, which is used as an indicator of useful plant, the wastewater treatment plant is determined to be 56.63%. (See Attachment C)

Wastewater Collection System

The wastewater collection system has the potential of serving 131 customers (estimated to be 105 ERCs) without the construction of additional collection mains. The average number of customers served during the test year was 92 ERCs. Growth over the past five years has been 3 ERCs. Constructed in three phases, each phase of development appears to have been constructed with the appropriate size gravity lines along with prudent placement of manholes. Based upon the approved formula approach, used as an indicator, we find that the utility's collection system is 100% used and useful. (See Attachment D)

Test Year Rate Base

The appropriate rate base components for this utility include UPIS, land, non-used and useful plant, contributions-in-aid-of-construction (CIAC), accumulated depreciation, amortization of CIAC and a working capital allowance.

We selected a test year ended December 31, 1998 for this rate case. The utility's rate base was last established by Polk County. However, sufficient records of the original construction were not available and considered lost by the auditors. An original cost study was completed using an available map and physical inspection of the facilities during the engineering investigation. Adjustments have been made to align rate base component balances with the engineer's original cost study and to update rate base through December 31, 1998. A summary of each component and the adjustments follows:

Utility Plant in Service (UPIS)

The utility books reflected a water utility plant balance of \$0 at the beginning of the test year. A new 5,000 gallon hydro-pneumatic water tank has been included in pro forma plant. The estimate for the new tank was submitted to the utility by Dunham Well Drilling, Inc. We have reviewed the estimate and determined the cost to be reasonable. Following the National Association of Regulatory Utility Commissioner's (NARUC) Uniform System of Accounts (USOA), the original cost of the existing hydro-pneumatic tank (\$10,980) has been removed from UPIS and charged to accumulated depreciation.

We made an adjustment of \$82,450 to reflect the amount of water plant per the original cost study completed by our staff

ORDER NO. PSC-99-2394-FOF-WS

DOCKET NO. 990356-WS

PAGE 9

engineer. Adjustments were also made to reflect: \$16,826 for a pro forma hydro-pneumatic tank; \$834 for pro forma additions to the utility building; (\$10,980) for the retirement of the existing hydro-pneumatic tank; \$2,227 for a pro forma chlorine alarm with automatic switch-over; \$456 for a pro forma back-up motor for the well pump; \$23,035 for Commission-ordered pro forma water meters (By Order No. PSC-98-1550-FOF-WS, issued November 23, 1998, in Docket No. 971192-WS, we approved continuation of the utility's current flat rate structure, but put the utility on notice that it would be required to install meters and implement a base facility and gallonage charge rate structure in its next filing with the Commission); \$3,109 for pro forma temporary hydro-pneumatic tanks; and (\$1,056) for an averaging adjustment. The resulting UPIS balance is \$116,901 for water.

The utility books also reflected a wastewater utility plant balance of \$0 at the beginning of the test year. We made an adjustment of \$249,359 to reflect the amount of wastewater plant per the original cost study completed by our staff engineer. Adjustments were also made to reflect: \$557 for a pro forma wastewater pump replacement; \$952 for a pro forma blower; and (\$2,141) to reflect an averaging adjustment. The resulting UPIS balance is \$248,727 for wastewater.

Pro forma water and wastewater plant shall be completed within 180 days of the effective date of this Order.

Land

The utility books reflected a land balance of \$0 at the end of the test year. The utility provided us proof of the "Agreement for Deed" to purchase the water and wastewater facilities. By Order PSC-98-1550-FOF-WS, issued November 23, 1998, we recognized the "Agreement for Deed" as adequate proof that the utility owns or maintains a long term lease for lands occupied by utility facilities. The original cost study provided a land value of \$2,997 for water, and \$18,519 for wastewater. Therefore, we hereby approve a utility land value of \$2,997 for water and \$18,519 for wastewater.

Non-Used and Useful Plant

As previously discussed, the water treatment plant, the water distribution system, and the wastewater collection system are 100% used and useful. The wastewater treatment plant is 56.63% used and useful. The non-used and useful percentages times the appropriate

ORDER NO. PSC-99-2394-FOF-WS
DOCKET NO. 990356-WS
PAGE 10

accounts reflect average non-used and useful wastewater plant of (\$41,325) and average non-used and useful wastewater accumulated depreciation of \$40,795. We made an adjustment of (\$530) to reflect non-used and useful wastewater plant.

Contributions-in-Aid-of-Construction (CIAC)

The utility recorded no CIAC on its books at the end of the test year. We were unable to establish water and wastewater CIAC because of inadequate utility records. Rule 25-30.570(1), Florida Administrative Code, states:

If the amount of CIAC has not been recorded on the utility's books and the utility does not submit competent substantial evidence as to the amount of CIAC, the amount of CIAC shall be imputed to be the amount of plant costs charged to the cost of land sales for tax purposes if available, or the proportion of the cost of the facilities and plant attributable to the water transmission and distribution system and the sewage collection system.

Since the utility did not have adequate books to provide CIAC balances, we imputed (\$31,433) for water CIAC and (\$117,903) for wastewater CIAC to reflect the water transmission and wastewater collection systems as calculated by the original cost study. We also made an averaging adjustment of \$603 to wastewater CIAC. Therefore, the calculated CIAC balances included in rate base are (\$31,433) for water and (\$117,300) for wastewater.

Accumulated Depreciation

According to the audit, the utility books reflected no accumulated depreciation balances for water or wastewater at the end of the test year. We calculated accumulated depreciation using the engineer's original cost study and a 2.5% depreciation rate from 1976 through March of 1984, then calculated depreciation using rates set forth in Rule 25-30.140, Florida Administrative Code, through the test year.

We made an adjustment of (\$45,471) to reflect the amount of water accumulated depreciation using the original cost study. We also made adjustments to reflect accumulated depreciation of: (\$255) for a pro forma hydro-pneumatic tank; (\$15) for pro forma additions to the utility building; \$10,980 for the retirement of the existing hydro-pneumatic tank; (\$159) for a pro forma chlorine

ORDER NO. PSC-99-2394-FOF-WS
DOCKET NO. 990356-WS
PAGE 11

alarm with automatic switch-over; (\$15) for a pro forma back-up motor for the well pump; (\$677) for Commission-ordered pro forma water meters; (\$47) for the temporary pro forma hydro-pneumatic tanks; and \$1,432 for an averaging adjustment. The amount calculated for accumulated depreciation is (\$34,227) for water.

An adjustment of (\$194,452) was made in order to reflect the amount of wastewater accumulated depreciation using the original cost study. We also made adjustments to reflect accumulated depreciation of: (\$32) for the pro forma blower; (\$19) for the pro forma replacement pump; and \$2,852 to reflect an averaging adjustment. The amount calculated for accumulated depreciation is (\$191,651) for wastewater.

Accumulated Amortization of CIAC

The utility recorded no accumulated amortization of CIAC at the end of the test year. We calculated accumulated amortization by using a 2.5% amortization rate through March of 1984, then calculated amortization using a composite rate through the test year. Adjustments of \$19,604 were made to water accumulated amortization, and \$93,730 to wastewater accumulated amortization. We also made averaging adjustments of (\$546) to water accumulated amortization, and (\$1,348) to wastewater accumulated amortization. Therefore, the resulting average balance of accumulated amortization of CIAC through March, 1984, is \$19,058 for water and \$92,382 for wastewater.

Working Capital Allowance

Working Capital is defined as the investor-supplied funds necessary to meet operating expenses or going-concern requirements of the utility. Pursuant to Rule 25-30.433, Florida Administrative Code, the one-eighth of operation and maintenance expense formula approach shall be used for calculating working capital allowance. Applying that formula, a working capital allowance of \$2,459 for water and \$3,318 for wastewater (based on water operation and maintenance expenses of \$19,674, and wastewater operation and maintenance expenses of \$26,547) is appropriate.

Rate Base Summary

Based on the foregoing, we find that the appropriate rate base balance for rate setting purposes is \$75,755 for the water system and \$53,465 for the wastewater system.

Acquisition Adjustment

In Order No. PSC-98-1550-FOF-WS, we did not determine the appropriateness of an acquisition adjustment for Breeze Hill since no rate base was established, noting that "Rate Base for utilities receiving grandfather certificates is typically established in the utility's first rate proceeding filed under our jurisdiction."

An acquisition adjustment results when the purchase price differs from the original cost calculation. The acquisition adjustment resulting from the 1997 purchase of Breeze Hill from Lake Walk In The Water Village Associates, Ltd. would be calculated as follows:

Purchase Price (06/13/97):	(\$ 33,078)
Commission Approved Water Rate Base: (as of 06/13/97)	\$ 20,619*
Staff Calculated Wastewater Rate Base: (as of 06/13/97)	<u>\$ 47,171*</u>
Negative Acquisition Adjustment:	<u>(\$ 34,712)</u>

* Rate Base calculated for transfer purposes and does not include normal ratemaking adjustments for non-used and useful plant or working capital.

We calculated rate base based on the original cost of the property when first dedicated to public service.

In the absence of extraordinary circumstances, it has been Commission practice that a purchase of a utility system at a premium or discount shall not affect the rate base calculation. We make no determination as to whether a negative acquisition adjustment should be made. However, for purposes of setting rates in this proceeding, the owner of the utility has agreed, without prejudice, to accept adjustments to the revenue requirements equal to the amount of the negative acquisition adjustment. Therefore, adjustments of \$912 and \$2,089, respectively, have been to the water and wastewater revenue requirements. This issue will be fully addressed in the utility's next rate proceeding.

Further, in the event of a protest, the issue of whether a negative acquisition adjustment should be made will be addressed at the evidentiary hearing.

COST OF CAPITAL

Our calculation of the appropriate cost of capital, the return on equity, and the overall rate of return, including our adjustments, is depicted on Schedule No. 2. Those adjustments that are self-explanatory or that are essentially mechanical in nature are reflected on this schedule without further discussion in the body of this Order. The major adjustments are discussed below.

Return on Equity

The utility's capital structure is consolidated with the parent organization, Bieber Enterprises, Inc. In cases where a utility capital structure is not available, we use the capital structure of the parent corporation. Based on the audit and original cost study, the capital structure consists of \$200 of common stock, \$32,778 of retained earnings, \$14,175 of paid in capital, and \$64,365 of long term debt at a cost of 6.30%. The utility's pro forma plant is estimated at \$47,996. Breeze Hill has stated that it needs to take out a loan for the pro forma plant with the cost of the loan at 1 1/2% over the prime rate with the prime rate being 8.25% at the time of this filing.

The rate of return on equity, when based on the leverage graph formula established in Order No. PSC-99-1224-PAA-WS issued June 21, 1999, in Docket No. 990006-WS, is 10.12% with a range of 9.12% to 11.12% and the overall rate of return is 8.47% with a range of 8.17% to 8.76%. We have made pro rata adjustments to reconcile the capital structure downward to match the approved rate base.

NET OPERATING INCOME

As previously noted, during the test year the utility provided water and wastewater services to an average 115 customers (114 residential and one general service). The utility reported revenues for the test year ended December 31, 1998 in the amount of \$14,538 and \$11,088 for the water and wastewater systems, respectively. According to the audit, a revenue check showed test year revenues should be \$14,784 for water and \$10,752 for wastewater. We made adjustments of \$246 and (\$336) for water and wastewater, respectively, to bring test year revenue to the proper amount. Based on the above, we find that a test year revenue of \$14,784 for water, and \$10,752 for wastewater is appropriate.

The selected test year for this rate case includes the twelve month period ending December 31, 1998. Annualized revenue for the

water and wastewater systems is \$14,784 and \$10,752, respectively.

Our calculation of net operating income is depicted on Schedule Nos. 3-A and 3-B, and our adjustments are itemized on Schedule No. 3-C. Those adjustments that are self-explanatory or that are essentially mechanical in nature are reflected on those schedules without further discussion in the body of this Order. The major adjustments are discussed below.

Test Year Operating Expenses

During the audit, the auditors discovered that the utility did not maintain its books and records in conformance with the NARUC USOA. Despite the state of the utility's books and records, we were able to complete the audit. Additionally, since the time of the audit, the utility's accountant has converted the utility's books to conform with the NARUC USOA. The utility submitted an invoice for this work, which we have included in operation and maintenance expenses, amortizing it over five years. Operating expenses for this utility include operation and maintenance expenses, depreciation expense (net of CIAC amortization), and taxes other than income. Adjustments have been made to reflect annual operating costs on a going forward basis.

Operation and Maintenance Expenses (O&M)

A summary of adjustments follows:

Salaries and Wages - Employees

The utility's owner acts as secretary, bookkeeper, regulatory liaison, general maintenance person, and chief maintenance supervisor. The utility recorded employee salaries and wages of \$9,360 for water and \$9,360 wastewater for the test year.

We completed an analysis of necessary labor hours and duties based on the size of this utility. Based on that analysis, along with information received at the customer meetings, we find the following salary allowances to be appropriate:

- a) An office person to answer phone calls, do general filing, bookkeeping, handle complaints, and maintain the complaint log (10 hours per week @ \$7.50 per hour).
- b) A general maintenance person to perform general system repairs, investigate complaints, do regular maintenance checks, pick up

parts, and assist/supervise contract services (10 hours per week @ \$10.00 per hour).

c) A meter reader to read water meters on a monthly basis (\$60 per month).

d) A plant operator to fulfill the required hours of on-site time and perform the maintenance checks required by a certified operator (\$2,700 per year for water, \$3,600 per year for wastewater).

e) A maintenance person for mowing and grounds keeping of the water plant which must be performed on a regular basis (approximately 18 times per year). The normal charge for this is \$30 per mowing for an estimated \$540 per year. The wastewater plant needs mowing 10 times per year at a cost of \$50 per mowing or \$500 annually, and the percolation ponds need to be cut by a bush hog at least 4 times per year at a cost of \$130 per mowing or \$520 annually. Total mowing and groundskeeping would amount to \$1,560 per year.

f) An owner/manager/supervisor of utility to supervise all aspects of the utility (6 hours per week @ \$15 per hour).

The owner has requested total utility salaries of \$31,200. However, based on our analysis and a breakdown of duties performed, we find that the test year salary expense of \$10,850 for the water system and \$11,510 for the wastewater system, for a total of \$22,360 in salary expense, is appropriate for this utility.

Sludge Removal Expense

The utility must regularly pump out and dispose of excess sludge. The utility recorded \$309 of sludge removal expense during the test year. It is estimated that the utility removes two loads of sludge each year. The most current flat rate quote for this service is \$310 per load. Therefore, we find that a sludge hauling expense of \$620 per year (2 X \$310) is appropriate.

Purchased Power

The utility recorded test year purchased power expense of \$2,592 for water and \$4,220 for wastewater. A regression adjustment has been included to recognize that consumption levels will decrease once new rates are effective. With a decrease in consumption, there will be a decrease in purchased power expense due to having to pump less water, and treat less wastewater. Based on the above, we find that a regression adjustment of (\$985) to

water, and (\$127) to wastewater, is appropriate to reflect the estimated decrease in purchased power expense. We also find that a purchased power expense of \$1,607 for water, and \$4,093 for wastewater to be appropriate for this utility.

Chemicals

The utility purchases gas chlorine in 150 pound cylinders for the disinfection of raw water. For this plant, 8 cylinders each year are necessary for the water system. Therefore, an allowance of \$544 for the test year for chemicals is appropriate. An adjustment of \$136 was made to water chemical expense to allow \$544 for chemicals for the test year.

For the wastewater system, disinfection in the chlorine contact chamber is accomplished with the use of a hypo-mechanical chlorine pump along with a liquid chlorine concentrate. Additionally, the utility purchases enzall, a degreasing agent to clean and treat the lift station, root begone, which eliminates encroaching roots, and lime which is necessary for disinfection and "cleanup" at the wastewater plant site. Therefore, an allowance of \$2,486 for chemicals for the wastewater system is appropriate. An adjustment of \$1,222 was made to reclassify a wastewater chemical expense from the materials and supplies account. Additionally, an adjustment of \$60 was made to wastewater chemical expense to allow \$2,486 for chemicals for the test year.

A repression adjustment was included to recognize that consumption levels will decrease once new rates are effective. With a decrease in consumption, there will be a decrease in chemical expense due to having to chemically treat less water, and chemically treat less wastewater. Therefore, we find that a repression adjustment of (\$207) to water, and (\$75) to wastewater, is appropriate to reflect the estimated decrease in chemical expense. Based upon the above, we find a chemical expense of \$337 for water, and \$2,411 for wastewater to be appropriate for this utility.

Materials and Supplies

The utility recorded test year materials and supplies expense of \$901 for water and \$2,706 for wastewater. We made an adjustment of (\$1,222) to the wastewater materials and supplies account to reclassify a chemical expense to account No. 718. Based on the above, we find that test year materials and supplies of \$901 for water and \$1,484 for wastewater are appropriate.

Contractual Services - Billing

The utility did not record any contractual services-billing expense for the test year. Once water meters are installed, the utility will be using an independent contractor to provide billing and collection services. The contractor with the low bid for these services will charge an initial \$700 set up fee. Therefore, we find that this charge shall be amortized over 5 years and split equally between the water and wastewater systems (\$70 per year, per system). Additionally, the annual charge for billing and collections shall be \$3,666 and be split equally between the water and wastewater systems (\$1,833 per year, per system). Based on the above, we find a contractual services-billing expense of \$1,903 for water and \$1,903 for wastewater to be appropriate.

Contractual Services - Professional

The utility recorded test year contractual services-professional expense of \$718 for water and \$543 for wastewater. Because the utility is now within our jurisdiction, it is required to follow the NARUC USOA as outlined in Rule 25-30.115, Florida Administrative Code. The utility contracted with a CPA firm to set up the utility books in accordance with the uniform system of accounts. The initial set-up fee for this work is \$3,155. We find that amortizing this fee over five years equally between the water and wastewater systems (\$316 per year, per system) is appropriate.

The utility also incurred expenses associated with engineering services in the amount \$3,000 for DEP required licenses and permits for the wastewater plant. We have amortized these costs over five years, which is the life of the permit (\$3,000/5). In addition, the South Florida Water Management District is now requiring the utility to obtain a consumptive use permit at a cost of \$350. Since the life of the permit is 10 years, we amortized the \$350 over 10 years and included a \$35 annual cost for the permit.

We find the above expenses to be reasonable. Therefore, a contractual services-professional expense of \$1,069 for water and \$1,459 for wastewater is appropriate.

Contractual Services - Testing

The utility recorded test year contractual services-testing expense of \$467 for water and \$1,186 for wastewater. State and local authorities require that several analysis be submitted in accordance with Rule 62-550, Florida Administrative Code. A

schedule of the required water and wastewater tests, frequency, and costs are as follows:

---WATER---

<u>Description</u>	<u>Frequency</u>	<u>Annual Cost</u>
Microbiological	Monthly	\$ 360
Primary Inorganics	36 Months	49
Secondary Inorganics	36 Months	29
Asbestos	1/ 9 Years	35
Nitrate & Nitrite	12 Months	40
Volatile Organics	qtr'ly/1st yr/ 36 Months Subsequent/Annual	110
Pesticides & PCB	36 Months	146
Radionuclides		
Group I	36 Months	42
Group II	36 Months	250
Unregulated Organics		
Group I	qtr'ly/1st yr/9 yr	112
Group II	36 Months	18
Group III	36 Months	83
Lead & Copper	Biannually	300
	Total Amount	<u>\$ 1,574</u>

---WASTEWATER---

<u>Description</u>	<u>Frequency</u>	<u>Annual Cost</u>
Biochemical O ₂ Demand (includes Nitrate, Nitrite)	Monthly	\$ 660
Total Suspended Solids	Monthly	146
Fecal Coliform	Monthly	180
Sludge Analysis	Yearly	200
	TOTAL	<u>\$ 1,186</u>

Adjustments of \$1,107 were made to water contractual services-testing to allow for a contractual services-testing expense of \$1,574 for water and \$1,186 for wastewater.

Contractual Services - Other

The utility recorded \$4,155 for the water system and \$6,642 for the wastewater system in this account for the test year. We made adjustments of (\$452) to water and (\$459) to wastewater to amortize non-recurring expenses over 5 years. We also made adjustments of (\$890) to water and (\$2,192) to wastewater to remove

miscellaneous repairs and maintenance expenses, which will now be completed by the full time employee. Because the contract operator will now be an employee of the utility instead of an independent contractor, we made an adjustment of (\$2,700) to the water system and (\$3,600) to the wastewater system to remove the operators annual contract. Therefore, we find that \$113 for water and \$391 for wastewater is appropriate for this expense.

Insurance Expense

The utility recorded liability insurance expense of \$324 for water and \$535 for wastewater for the test year. We made an adjustment of \$531 to water and \$557 to wastewater to include worker's compensation insurance. Therefore, we find that a test year insurance expense of \$855 for water and \$1,092 for wastewater is appropriate.

Operation and Maintenance Expenses (O & M) Summary

Total operation and maintenance adjustments are \$284 for water and (\$556) for wastewater. We find that operation and maintenance expenses of \$19,674 for water and \$26,547 for wastewater are appropriate. Operation and maintenance expenses for water are shown in Schedule No. 3D and operation and maintenance expenses for wastewater are shown in Schedule No. 3E.

Depreciation Expense (Net of Amortization of CIAC)

The utility recorded no depreciation expense for the test year. Consistent with Commission practice, test year depreciation expense was calculated using the rates prescribed by Rule 25-30.140, Florida Administrative Code. We made a \$2,865 adjustment to water depreciation expense, and \$5,704 adjustment to wastewater depreciation expense, to include our calculated depreciation expense. We also made adjustments of \$2,004 to water and \$100 to wastewater to include depreciation on pro forma plant. CIAC amortization adjustments amounted to (\$1,092) for water and (\$2,697) for wastewater. An adjustment of (\$38) was made to wastewater to reflect non-used and useful test year depreciation. Based on the above, we find that depreciation expenses net of CIAC of \$3,777 for water and \$3,069 for wastewater are appropriate for the test year.

Taxes Other Than Income Taxes

The utility did not record an amount in this account for the test year. We made adjustments of \$665 for water and \$484 for wastewater to include regulatory assessment fees on test year revenue, adjustments of \$31 for water and \$168 for wastewater to reflect test year real estate taxes, adjustments of \$916 for water and \$971 for wastewater to allow for payroll taxes on salaries, and adjustments of \$38 for water and \$38 for wastewater to reflect corporate filing fees. Therefore, we find that test year taxes other than income of \$1,650 for the water system and \$1,661 for the wastewater system are appropriate.

In addition, we find that a revenue requirement increase of \$17,520 for the water system and \$26,233 for the wastewater system is appropriate. As a result, taxes other than income taxes will increase by \$788 and \$1,180 for water and wastewater, respectively, to reflect the regulatory assessment fee of 4.5%.

REVENUE REQUIREMENT

The appropriate revenue requirement for the utility is \$32,304 for water and \$36,985 for wastewater. This results in a \$17,520 (118.51%) increase for water and a \$26,233 (243.98%) increase for wastewater, allowing the utility an opportunity to earn an 8.47% overall rate of return on its investment. The calculations are as follows:

	<u>Water</u>	<u>Wastewater</u>
Adjusted Rate Base	\$ 75,755	\$ 53,465
Rate of Return	<u>x .0847</u>	<u>x .0847</u>
Return on Investment	\$ 6,414	\$ 4,527
O & M Expenses	19,674	26,547
Depreciation Expense (Net)	3,777	3,069
Taxes Other Than Income Taxes	<u>2,438</u>	<u>2,841</u>
Revenue Requirement	<u>\$ 32,304</u>	<u>\$ 36,985</u>
Annual Revenue Increase	\$ 17,520	\$ 26,233
Percentage Increase/(Decrease)	<u>118.51%</u>	<u>243.98%</u>

However, as previously stated, for purposes of setting rates in this proceeding, the owner of the utility has agreed, without prejudice, to accept adjustments to the revenue requirements equal to the amount of the negative acquisition adjustment.

Therefore, the water rates are designed to produce annual revenues of \$31,392, and wastewater rates are designed to produce annual revenues of \$34,896.

RATES AND RATE STRUCTURE

Breeze Hill is located in the South Florida Water Management District (SFWMD). At the start of this proceeding, the utility did not hold a consumptive use permit (CUP). However, upon being informed by the SFWMD that a CUP is required, the utility began the necessary application process. It is anticipated that the utility will be granted a CUP in the near future. Additionally, we have been informed by a representative of the SFWMD that the utility is not located in a water use caution area.

Breeze Hill provides water and wastewater service to approximately 116 residential customers and one general service customer in a mobile home community. Currently, all customers are charged flat monthly rates of \$11 for water and \$8 for wastewater. The utility's current rate structure was originally approved by the Polk County Board of County Commissioners in 1983, and approved by this Commission under grandfather provisions when the utility was granted water and wastewater certificates in 1998.

It has been Commission practice that whenever possible a flat rate structure is converted to a base facility and gallonage charge rate structure in order to promote state conservation goals and to eliminate subsidization of those who use excessive amounts of water by those who do not. In Docket No. 971192-WS, in which Breeze Hill was granted grandfather certificates, we considered recommending implementation of usage specific rates at that time. However, it was determined that it was not economically feasible for the utility to install meters in the mobile home park without approval of fees to recover the cost of the meter installation. The owner informed us that he intended to file for a staff assisted rate case in the near future. Consequently, by Order No. PSC-98-1550-FOF-WS, issued November 23, 1998, in Docket No. 971192-WS, we approved continuation of the utility's current flat rate structure, but put the utility on notice that it would be required to install meters and implement a base facility and gallonage charge rate structure in its next filing with the Commission. Accordingly, we find that the appropriate conservation rate structure for this utility is the base facility and uniform gallonage charge rate structure. A representative of the SFWMD has indicated to us that the SFWMD is supportive of the Commission's requirement that the utility install water meters.

REPRESSION ADJUSTMENT

In cases such as this where customers are not yet individually metered, we must estimate the customers' consumption for purposes of the rate calculation. Historically, this has been accomplished in one of two ways. In some cases, we have used metered consumption data from other regulated utilities with a similar customer base. Although actual usage is different for each utility, we have been able to derive reasonable estimates of average consumption for certain types of communities using this methodology.

Alternatively, when reliable flow data is available from the utility's treatment facilities, that data can be used as the starting point for estimating consumption for the rate calculation. Because the flow data obtained from the plant meters represents all water and effluent flows, including any flows attributable to leaks or infiltration, the total flow data must be adjusted to remove non-customer usage. Also, if the utility provides different classes of service (i.e., residential, multi-residential, general service), estimates must be made regarding what portion of the usage should be allocated to each class.

Based upon the above, we find that it is appropriate to use utility specific data whenever available. Therefore, we initially calculated rates for Breeze Hill using actual flow data from the utility's facilities. Our first step was to remove ten percent of the total gallons from water and wastewater to reflect possible non-customer usage, such as line flushing, leaks, and infiltration. Staff's calculations indicate that even after reducing consumption by ten percent for unaccounted for water, the customers' average water usage is 12,399 gallons per month. However, it has been our experience that consumption generally declines when customers are charged usage specific rates.

In an attempt to quantify the relationship between revenue increases and consumption impacts, we have created a database of all water utilities that were granted rate increases or decreases (excluding indexes and pass-throughs) between January 1, 1990 and December 31, 1995. This database contains utility-specific information from the applicable orders, tariff pages and the utilities' annual reports for the years 1989 - 1995. At present, the database only contains four examples of utilities which underwent a rate structure change from a flat rate to a base facility and gallonage charge rate structure. Those utilities experienced reductions in consumption of (24%), (32%), (55%), and

(59%). Although the data is limited, there is some evidence to indicate that a change from a flat rate to metered service will result in a significant reduction in consumption. Accordingly, we made a second adjustment to reflect the anticipated consumption reduction. This resulted in an average water consumption of 8,248 gallons per month per customer, which was used to calculate the water rates presented to the customers at the October 6, 1999 Customer Meeting.

At the customer meeting, several customers expressed concern that the estimated water consumption figures were overstated. Some customers believe a portion of the total consumption is attributable to leaks within the mobile home park. Also, some customers maintain that a portion of the high consumption is due to unusual drought conditions that occurred during the 1998 test year. Representatives of the Breeze Hill Homeowners' Association informed us that, in their opinion, the drought conditions resulted in higher than normal irrigation during the months of April, May, and June. For the above reasons, some customers do not believe the 1998 consumption data is representative of their normal usage patterns, and suggested that we recalculate the annual consumption figures without data from April, May, and June.

During 1998, it became necessary for the utility to remove the water plant flow meter for repairs. Consequently, the utility was only able to provide nine full months of water flow data for 1998. In our initial calculations, we used the average monthly flow from those nine months to arrive at an annualized consumption figure. As stated above, representatives of the Breeze Hill Homeowners' Association suggested that we eliminate the months of April, May, and June, and recalculate an annualized consumption figure based upon the remaining six months of data. They believe this will be more representative of their normal consumption.

Following this suggested methodology, the average monthly water consumption, after a ten percent reduction for unaccounted for water, is 11,279 gallons per month per customer. Even eliminating the three highest months of usage, the data indicates the average usage per customer is still quite high for a retirement community. In order to further assess whether the drought months in 1998 significantly distorted the consumption figures, we reviewed the water flow data for the first six months of 1999. The total flows for the first four months of 1999 all exceeded the total flows for the same four months of 1998. Further, the average monthly water consumption for the first six months of 1999 is higher than the average monthly water consumption for the first six

months of 1998. Therefore, it appears that drought conditions may have contributed to increased consumption in May and June of 1998. However, due to the continued increase in customer usage in the early months of 1999, we do not believe the drought conditions in 1998 caused the overall consumption level to differ significantly enough to warrant not using 1998 consumption data.

Additionally, we have been informed by the utility that approximately 95 customers have in-ground irrigation systems, which in some cases are left running on timers while the customers are out of residence for several months. Also, at the October 6, 1999 customer meeting, one customer reported that some customers in the community had taken the sprinkler heads off of their irrigation systems and left them running 24 hours a day.

In consideration of these various factors, we do not find that the apparent high consumption levels seen in 1998 are due solely to drought conditions. Consequently, elimination of the highest three months of usage to achieve a lower consumption figure would be inappropriate in this case. Further, we have traditionally used as much data as is available when calculating consumption figures. Therefore, the concept of using only six months of data to determine the annual consumption for purposes of the rate calculation is inappropriate in this instance, and this would be a deviation from previous Commission practice. For these reasons, we decline to adopt the Breeze Hill Homeowners' Associations' suggested methodology.

However, we recognize that the customers have valid concerns about the limited information that can be obtain from the plant flow data. In addition to the malfunction of the water plant flow meter discussed above, the utility's water tank developed leaks on several occasions during 1998. It is not known how much water may have been lost as a result of those leaks. Additionally, the utility experienced infiltration problems in 1998 which required repairs to manholes in July through September of 1998. Consequently, we believe that at least a portion of the wastewater flow data from 1998 is inflated due to infiltration. Although a ten percent reduction to the total consumption figures was made, we recognize that there is a possibility that the infiltration problem could have been responsible for more than ten percent of the wastewater flows during that time. However, without metered consumption data from each customer, we are unable to determine the exact amount of usage which is attributable to different sources, and must rely upon estimates.

Although our initial calculations are reasonable given the data available, we find that the alternate methodology of adopting consumption data from another regulated utility is more appropriate in this case, and helps resolve some of the customers' concerns regarding the consumption data. Therefore, we have reviewed the average usage per customer for a number of utilities with a similar customer base. Despite the fact that the average consumption varied between all of the utilities, we found a number of utilities in Polk County and the surrounding counties which had usage in the 7,000 to 8,000 gallon range. Due to the high percentage of customers with in-ground irrigation systems, we find that water consumption for this community may be a little higher than is typically seen in retirement communities without in-ground irrigation systems.

Based on the foregoing, we have estimated that an average water consumption of 7,500 gallons per residential customer per month and a residential wastewater gallonage cap of 6,000 gallons per month is appropriate for the purpose of calculating rates. While this methodology does not specifically incorporate a regression adjustment, it does reflect the fact that we anticipate there will be a reduction in consumption following implementation of usage specific rates.

For the foregoing reasons, we find that a regression adjustment is not appropriate in this case. However, we do find that an average water consumption of 7,500 gallons per residential customer per month and a residential wastewater gallonage cap of 6,000 gallons per month is appropriate for the purpose of calculating rates. Further, it will be beneficial in future cases to monitor the effects of this rate increase on consumption. Therefore, the utility shall be ordered to file, on a quarterly basis, reports for both water and wastewater detailing the number of bills rendered, the number of gallons billed and the total revenues billed during the quarter, with the totals shown separately for the residential and general service classes of service. These reports shall be required for a period of two years, beginning the first quarter after the revised rates go into effect.

MONTHLY WATER AND WASTEWATER RATES

Residential Wastewater Gallonage Cap

The approved rates for wastewater service shall include a base charge for all residential customers regardless of meter size with

a cap of 6,000 gallons of usage per month on which the gallonage charge may be billed. There is no cap on usage for general service wastewater bills.

The current Commission standard in setting residential wastewater rates is that only 80% of residential water usage is returned to the system as wastewater. The remaining 20% is attributed to outside uses such as lawn irrigation, car washing, etc.

Generally, we set monthly caps of 6,000 gallons, 8,000 gallons, or 10,000 gallons per month. For this utility, our analysis indicates that residential customers will use approximately 7,500 gallons of water per month once the new base facility/gallonage rate structure is initiated.

In consideration of the above, and the fact that the utility serves a mobile home retirement community with seasonal customers, we find it appropriate to set the wastewater gallonage cap for residential customers at 6,000 gallons per month for wastewater residential customers at this time. If usage patterns change, this gallonage cap will be re-examined in the next rate case.

Water and Wastewater Rates

During the test year, Breeze Hill provided water and wastewater service to an average 115 customers. Approximately 55% of the water revenue requirement is associated with the fixed costs of providing service. Fixed costs are recovered through the base facility charge based on annualized number of factored ERCs. The remaining 45% of the water revenue requirement represents the consumption charge based on the estimated number of gallons consumed during the test period.

Approximately 51% of the wastewater revenue requirement is associated with the fixed costs of providing service. Fixed costs are recovered through the base facility charge based on annualized number of factored ERCs. The remaining 49% of the wastewater revenue requirement represents the consumption charge based on the estimated number of gallons consumed during the test period. Rates have been calculated using the adjusted revenue requirements, the number of bills, and the number of gallons of water billed during the test year, adjusted for repression. Step I flat rates are rates to be effective prior to installation of water meters. Step II rates will be effective once water meters are installed. Schedules of the utility's existing rates and Commission approved

ORDER NO. PSC-99-2394-FOF-WS
 DOCKET NO. 990356-WS
 PAGE 27

rates, adjusted for repression, are as follows:

Step I Residential Flat Water Rates

	<u>Existing Monthly Rate</u>	<u>Commission Step I Approved Rate</u>
Flat Rate	\$11.00	\$20.83

Step I General Service Flat Water Rates (Clubhouse)

	<u>Existing Monthly Rate</u>	<u>Commission Step I Approved Rate</u>
Flat Rate	\$11.00	\$196.86

Step I Residential Service Flat Wastewater Rates

	<u>Existing Monthly Rate</u>	<u>Commission Step I Approved Rate</u>
Flat Rate	\$8.00	\$23.15

Step I General Service Flat Wastewater Rates (Clubhouse)

	<u>Existing Monthly Rate</u>	<u>Commission Step I Approved Rate</u>
Flat Rate for Clubhouse	\$8.00	\$220.40

Step II Residential & General Service Metered Water Rates

	<u>Existing Monthly Rates</u>	<u>Commission Approved Monthly Rates</u>
Base Facility Charge		
<u>Meter Size</u>		
5/8 x 3/4"	\$ 11.00	\$ 11.83
3/4"	11.00	17.75
1"	11.00	29.58
1 1/2"	11.00	59.16
2"	11.00	94.66
3"	11.00	189.32
4"	11.00	295.81
6"	11.00	591.61
Gallorage Charge	\$ 0.00	\$ 1.20

Step II Residential Service Metered Wastewater Rates

Base Facility Charge <u>Meter Size</u>	Existing <u>Monthly Rates</u>	Commission Approved <u>Monthly Rates</u>
All Meter Sizes	\$ 8.00	\$ 12.65
Gallonage Charge Per 1,000 gallons (6,000 gallon cap)	\$ 0.00	\$ 1.75

Step II General Service Metered Wastewater Rates

Base Facility Charge <u>Meter Size</u>	Existing <u>Monthly Rates</u>	Commission Approved <u>Monthly Rates</u>
5/8 x 3/4"	\$ 8.00	\$ 12.65
3/4"	8.00	18.97
1"	8.00	31.61
1 1/2"	8.00	63.23
2"	8.00	101.17
3"	8.00	202.33
4"	8.00	316.14
6"	8.00	632.28
Gallonage Charge Per 1,000 gallons	\$ 0.00	\$ 1.75

The differential in the gallonage charge for residential and general service wastewater customers is designed to recognize that a portion of a residential customer's water usage will not be returned to the wastewater system. Based on our approved rates, once water meters are installed and Step II rates begin, the following will be estimated average residential water monthly billings for the consumption shown:

<u>Monthly Consumption (In Gallons)</u>	<u>Monthly Billing</u>	<u>Using Commission Approved Rates</u>
5,000	\$11.00	\$17.83
7,500	\$11.00	\$20.83
10,000	\$11.00	\$23.83
15,000	\$11.00	\$29.83

Based on our approved rates, once water meters are installed and Step II rates begin, the following will be estimated average residential wastewater monthly billings for the consumption shown:

<u>Monthly Consumption (In Gallons)</u>	<u>Monthly Billing</u>	<u>Using Commission Approved Rates</u>
5,000	\$8.00	\$21.40
7,500	\$8.00	\$23.15*
10,000	\$8.00	\$23.15*
15,000	\$8.00	\$23.15*

* Residential Gallonage Cap of 6,000 gallons

The approved Step I rates shall be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code, provided the customers have received notice. The Step I rates shall not be implemented until proper notice has been received by the customers. The utility shall provide proof of the date notice was given within 10 days after the date of the notice. Staff shall be given administrative authority to approve the Step II tariff sheets upon verification that the water meters have been installed, and that the tariffs are consistent with the our decision.

TEMPORARY RATES IN THE EVENT OF PROTEST

This Order proposes an increase in water and wastewater rates. A timely protest might delay what may be a justified rate increase resulting in an unrecoverable loss of revenue to the utility. Therefore, in the event of a timely protest filed by a party other than the utility, the rates contained in the body of this Order are hereby approved as temporary rates. The approved rates collected by the utility shall be subject to the refund provisions discussed below.

The utility shall be authorized to collect the temporary rates upon our approval of the security for potential refund and proposed customer notice. The security shall be in the form of a bond or letter of credit in the amount of \$28,129. Alternatively, the utility could establish an escrow agreement with an independent financial institution.

If the utility chooses a bond as security, the bond shall

contain wording to the effect that it will be terminated only under the following conditions:

- 1) The Commission approves the rate increase; or
- 2) If the Commission denies the increase, the utility shall refund the amount collected that is attributable to the increase.

If the utility chooses a letter of credit as security, it shall contain the following conditions:

- 1) The letter of credit is irrevocable for the period it is in effect.
- 2) The letter of credit will be in effect until final Commission order is rendered, either approving or denying the rate increase.

If security is provided through an escrow agreement, the following conditions shall be part of the agreement:

- 1) No funds in the escrow account may be withdrawn by the utility without the express approval of the Commission.
- 2) The escrow account shall be an interest bearing account.
- 3) If a refund to the customers is required, all interest earned by the escrow account shall be distributed to the customers.
- 4) If a refund to the customers is not required, the interest earned by the escrow account shall revert to the utility.
- 5) All information on the escrow account shall be available from the holder of the escrow account to a Commission representative at all times.
- 6) The amount of revenue subject to refund shall be deposited in the escrow account within seven days of receipt.
- 7) This escrow account is established by the direction of the Florida Public Service Commission for the purpose(s) set forth in its order requiring such account. Pursuant to Cosentino v. Elson, 263 So. 2d 253 (Fla. 3d DCA 1972), escrow accounts are not subject to garnishments.
- 8) The Director of Records and Reporting must be a signatory to the escrow agreement.

In no instance shall the maintenance and administrative costs associated with the refund be borne by the customers. These costs are the responsibility of, and shall be borne by, the utility. Irrespective of the form of security chosen by the utility, an account of all monies received as result of the rate increase shall be maintained by the utility. This account must specify by whom and on whose behalf such monies were paid. If a refund is ultimately required, it shall be paid with interest calculated pursuant to Rule 25-30.360(4), Florida Administrative Code.

The utility shall maintain a record of the amount of the bond, and the amount of revenues that are subject to refund. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), Florida Administrative Code, the utility shall file reports with the Division of Water and Wastewater no later than 20 days after each monthly billing. These reports shall indicate the amount of revenue collected under the increased rates.

SERVICE AVAILABILITY POLICY

The utility's existing service availability policy includes customer connection (tap-in) fees of \$400 for water and \$600 for wastewater. We have imputed the utility's distribution and collection lines as CIAC. Therefore, the customer connection charges shall be changed to plant capacity charges. The total potential customer base of the certified territory is estimated to be 131 residential connections (estimated to be 105 ERCs), and growth is minimal. The existing CIAC contribution levels are 31.99% for water and 44.03% for wastewater. Since these amounts are less than the 75% maximum amount of CIAC recommended by Rule 25-30.580(1)(a), Florida Administrative Code, and collecting the approved charges for all future customers will not cause the utility to exceed the 75% maximum contribution level, the utility shall be allowed to maintain the existing amount of service availability charges approved by Order No. PSC-98-1550-FOF-WS, issued November 23, 1998, in Docket No. 971192-WS. However, these charges shall be changed from customer connection charges to plant capacity charges.

Initiation of a meter installation charge of \$190 shall be for new customers only. The utility is presently unmetered, but we have included monies in this Order to install water meters for all existing customers as required by Order No. PSC-98-1550-FOF-WS. There is an estimated potential growth of 15 future customers in this development. We have calculated an estimated cost of \$190 per meter for the meter installation charge for new customers only.

RATES ASSOCIATED WITH PRO FORMA PLANT

Pro forma plant costs of \$46,487 for water and \$1,509 for wastewater have been included in rate base. Of this amount, \$42,544 of pro forma water plant and \$952 of pro forma wastewater plant have not been completed as of this filing. The water plant pro forma to be completed consists of the installation of a new 5,000 gallon hydro-pneumatic water tank, installation of a chlorine alarm with automatic switch-over, installation of water meters for all existing customers, and purchase of a back-up motor for the well pump. The wastewater pro forma plant to be completed consists of a new blower for the wastewater plant. The utility has not provided signed contracts listing cost and tentative dates of completion of plant improvements. In order to allow the utility to complete the approved pro forma plant, and protect the rate payers interest, the utility shall be required to escrow that portion of the rates associated with the \$42,544 pro forma water plant and the \$952 pro forma wastewater plant which have not been completed as of this filing until we can verify completion of plant improvements. The calculations are as follows:

	<u>WATER</u>	<u>WASTEWATER</u>
Pro Forma Plant	\$ 42,544	\$ 952
Depreciation	<u>(2,212)</u>	<u>(63)</u>
Net Plant	\$ 40,332	\$ 889
Overall ROR	<u>x .0847</u>	<u>x .0847</u>
Return on Rate Base	\$ 3,416	\$ 75
Net Annual Depr. Expense	<u>2,212</u>	<u>63</u>
	\$ 5,628	\$ 138
Divided by Reg. Fee Gross-up	<u>.955</u>	<u>.955</u>
Revenue on Proforma Plant	\$ 5,893	\$ 145
Divided by Number of Months	<u>12 months</u>	<u>12 months</u>
Monthly Escrow Amount	\$ 491	\$ 12

When security is provided through an escrow agreement, the following conditions should be part of the agreement:

- 1) No funds in the escrow account may be withdrawn by the utility without the express approval of the Commission.
- 2) The escrow account shall be an interest bearing account.
- 3) If a refund to the customers is required, all interest earned by the escrow account shall be

distributed to the customers.

- 4) If a refund to the customers is not required, the interest earned by the escrow account shall revert to the utility.
- 5) All information on the escrow account shall be available from the holder of the escrow account to a Commission representative at all times.
- 6) The amount of revenue subject to refund shall be deposited in the escrow account within seven days of receipt.
- 7) This escrow account is established by the direction of the Florida Public Service Commission for the purpose(s) set forth in its order requiring such account. Pursuant to Cosentino v. Elson, 263 So.2d 253 (Fla. 3d DCA 1972), escrow accounts are not subject to garnishments.
- 8) The Director of Records and Reporting must be a signatory to the escrow agreement.

The utility shall escrow \$491 per month for water and \$12 per month for wastewater for revenue associated with \$42,544 of pro forma water plant and \$952 of pro forma wastewater plant. In addition, the utility shall install the proforma plant within 180 days of the issuance date of this Order. Since the utility is required to escrow only that portion of the rates related to pro forma plant, the amount of escrowed funds shall be approximately \$3,000 in the 180 day period. Escrowed funds shall be released when pro forma plant completion is verified.

BOOKS AND RECORDS

As previously discussed, during the audit our auditors discovered the utility's accounting system was not maintained in conformance with the NARUC USOA. This was apparently due to multiple differences in accounting methods and treatment between income tax basis and the USOA basis of accounting for utility operations.

Rule 25-30.115, Florida Administrative Code, entitled "Uniform System of Accounts for Water and Wastewater Utilities," states:

ORDER NO. PSC-99-2394-FOF-WS
DOCKET NO. 990356-WS
PAGE 34

Water and wastewater utilities shall, effective January 1, 1998, maintain their accounts and records in conformity with the 1996 NARUC Uniform System of Accounts adopted by the National Association of Regulatory Utility Commissioners.

Section 367.161, Florida Statutes, authorizes the Commission to assess a penalty of not more than \$5,000 for each offense, if a utility is found to have knowingly refused to comply with, or have willfully violated any Commission rule, order, or provision of Chapter 367, Florida Statutes. In failing to maintain its books and records in conformance with the USOA, the utility's act was "willful" in the sense intended by Section 367.161, Florida Statutes. In Order No. 24306, issued April 1, 1991, in Docket No. 890216-TL, titled In Re: Investigation Into The Proper Application of Rule 25-14.003, Florida Administrative Code, Relating To Tax Savings Refund For 1988 and 1989 For GTE Florida, Inc., the Commission having found that the company had not intended to violate the rule, nevertheless found it appropriate to order it to show cause why it should not be fined, stating that "[i]n our view, 'willful' implies an intent to do an act, and this is distinct from an intent to violate a statute or rule." Additionally, "[i]t is a common maxim, familiar to all minds that 'ignorance of the law' will not excuse any person, either civilly or criminally." Barlow v. United States, 32 U.S. 404, 411 (1833).

Despite the state of the utility's books and records, our auditors were able to complete the audit. Additionally, since the time of the audit, the utility's accountant has converted the utility's books to conform with the USOA and has submitted an invoice for this work to the utility. This cost is included in operation and maintenance expenses, amortizing it over five years.

Although the utility's failure to keep its books and records in conformance with the NARUC USOA is an apparent violation of Rule 25-30.115, Florida Administrative Code, we find that a show cause proceeding is not warranted and shall not be initiated at this time. We do not find that the apparent violation of Rule 25-30.115, Florida Administrative Code, in these circumstances rises to the level which warrants the initiation of a show cause proceeding. Therefore, the utility shall not be required to show cause for failing to keep its books and records in conformance with the NARUC USOA.

If no timely protest is received upon expiration of the protest period, this Order shall become final upon the issuance of

ORDER NO. PSC-99-2394-FOF-WS
DOCKET NO. 990356-WS
PAGE 35

a Consummating Order. However, this docket shall remain open for an additional 180 days from the issuance date of the Consummating Order to verify that the utility has installed a new 5,000 gallon hydro-pneumatic water tank, a chlorine alarm with automatic switch-over, water meters for all customers, a blower at the wastewater plant, and purchased a back-up motor for the well pump. Once staff has verified that the foregoing work has been completed, the docket shall be closed administratively. In the event a timely protest is received by a substantially affected person other than the utility, Breeze Hill Utilities Inc.'s annual revenues shall not be reduced by \$3,001, and this issue will be revisited at hearing.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Breeze Hill Utilities, Inc.'s application for increased water and wastewater rates and charges is hereby approved as set forth in the body of this Order. It is further

ORDERED that each of the findings made in the body of this Order is hereby approved in every respect. It is further

ORDERED that all matters contained in the schedules attached hereto are incorporated herein by reference. It is further

ORDERED that Breeze Hill Utilities, Inc. is authorized to charge the new rates and charges as set forth in the body of this Order. It is further

ORDERED that Breeze Hill Utilities, Inc.'s rates and charges shall be effective for services rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code, provided that customers have received notice. It is further

ORDERED that Breeze Hill Utilities Inc. shall provide proof that customers have received notice within ten days of the date of the notice. It is further

ORDERED that in the event of a timely protest by a substantially affected person other than the utility, Breeze Hill Utilities Inc. is authorized to collect the rates approved on a temporary basis, subject to refund in accordance with Rule 25-30.360, Florida Administrative Code, provided that Breeze Hill Utilities Inc. first furnishes, and Commission staff approves, adequate security for any potential refund and a proposed customer

ORDER NO. PSC-99-2394-FOF-WS
DOCKET NO. 990356-WS
PAGE 36

notice. It is further

ORDERED that in the event of a timely protest by a substantially affected person other than the utility, Breeze Hill Utilities Inc.'s annual revenues shall not be reduced by \$3,001, and this issue will be revisited at hearing. It is further

ORDERED that prior to its implementation of the rates and charges approved herein, Breeze Hill Utilities Inc. shall submit and have approved revised tariff pages. The revised tariff pages shall be approved upon Commission staff's verification that the pages are consistent with our decision herein, that the protest period has expired, that the customer notice is adequate, and that any required security has been approved. It is further

ORDERED that in the event of a timely protest, prior to the implementation of rates and charges approved herein, Breeze Hill Utilities Inc. shall submit and have approved a bond or letter of credit in the amount of \$28,129 as a guarantee of any potential refund of revenues collected on a temporary basis. Alternatively, the utility may establish an escrow account with an independent financial institution. It is further

ORDERED that in the event of a timely protest, Breeze Hill Utilities Inc. shall submit monthly reports no later than twenty days after each monthly billing, indicating the amount of revenue collected on a temporary basis, subject to refund. It is further

ORDERED that Breeze Hill Utilities Inc.'s margin reserve shall be 33 gallons per minute for the water treatment plant, 3,180 gallons per day for the wastewater treatment plant, and 15 equivalent residential connections for both the water distribution and the wastewater collection systems. It is further

ORDERED that Breeze Hill Utilities Inc. shall implement the approved Step I flat rates until all water meters are installed, at which time the utility shall implement the approved Step II metered rates. It is further

ORDERED that Breeze Hill Utilities Inc. shall file on a quarterly basis, reports for both water and wastewater detailing the number of bills rendered, the number of gallons billed and the total revenues billed during the quarter, with totals shown separately for the residential and general service classes of service. These reports shall be required for a period of two years, beginning the first quarter after the increased rates go

ORDER NO. PSC-99-2394-FOF-WS
DOCKET NO. 990356-WS
PAGE 37

into effect. It is further

ORDERED that Breeze Hill Utilities Inc. shall not be required to show cause at this time for its apparent violation of Rule 25-30.115, Florida Administrative Code, for failure to maintain its books and records in accordance with the NARUC USOA. It is further

ORDERED that Breeze Hill Utilities Inc. shall initiate a meter installation charge of \$190 for new customers only, which charge shall be included in its tariff. It is further

ORDERED that if the revised tariff sheets are filed within 30 days of the issuance date of a Consummating Order declaring this Order to be final, Commission staff shall have administrative authority to approved the revised tariff sheets upon Commission staff's verification that the tariffs are consistent with this Order. It is further


ORDERED that if revised tariff sheets are filed and approved, the meter installation charge shall become effective for connections made on or after the stamped approval date of the revised tariff sheets, provided no timely protest is filed. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, Florida Administrative Code, is received by the Director, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings or Judicial Review" attached hereto. It is further

ORDERED that if no timely protest if received form a substantially affected person within the 21-day protest period, this docket shall remain open for 180 days to allow Commission staff to verify that the utility has installed a new 5,000 gallon hydro-pneumatic water tank, a chlorine alarm with automatic switch-over, water meters for all customers, a blower at the wastewater plant, and purchased a back-up motor for the well pump. Once staff has verified that the foregoing work has been completed, the docket shall be closed administratively.

ORDER NO. PSC-99-2394-FOF-WS
DOCKET NO. 990356-WS
PAGE 38

By ORDER of the Florida Public Service Commission this 7th day
of December, 1999.



BLANCA S. BAYÓ, Director
Division of Records and Reporting

(S E A L)

SAC

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

As identified in the body of this order, our action discussed herein, except for the granting of temporary rates, subject to refund, in the event of a protest and decision not to initiate a show cause proceeding, is preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Director, Division of Records and Reporting, at 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on December 28, 1999. If such a petition is filed, mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing. In the absence of such a petition, this order shall become effective and

ORDER NO. PSC-99-2394-FOF-WS
DOCKET NO. 990356-WS
PAGE 39

final upon the issuance of a Consummating Order.

Any objection or protest filed in this docket before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

Any party adversely affected by the Commission's final action in this matter may request: (1) reconsideration of the decision by filing a motion for reconsideration with the Director, Division of Records and Reporting within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or (2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water or wastewater utility by filing a notice of appeal with the Director, Division of Records and Reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

BREEZE HILL UTILITIES, INC. TEST YEAR ENDING DECEMBER 31, 1998 SCHEDULE OF WATER RATE BASE		SCHEDULE NO. 1-A DOCKET NO. 990356-WS		
DESCRIPTION	BALANCE PER UTILITY	COMMISSION ADJUST. TO UTIL. BAL.	BALANCE PER COMM'N	
1. UTILITY PLANT IN SERVICE	\$0	\$116,901	\$116,901	
2. LAND & LAND RIGHTS	0	2,997	2,997	
3. NON-USED AND USEFUL	0	0	0	
4. CIAC	0	(31,433)	(31,433)	
5. ACCUMULATED DEPRECIATION	0	(34,227)	(34,227)	
6. AMORTIZATION OF CIAC	0	19,058	19,058	
7. WORKING CAPITAL ALLOWANCE	0	2,459	2,459	
8. WATER RATE BASE	<u>\$0</u>	<u>\$75,755</u>	<u>\$75,755</u>	

BREEZE HILL UTILITIES, INC. TEST YEAR ENDING DECEMBER 31, 1998 SCHEDULE OF WASTEWATER RATE BASE		SCHEDULE NO. 1-B DOCKET NO. 990356-WS		
DESCRIPTION	BALANCE PER UTILITY	COMM'N ADJUST. TO UTIL.	BALANCE PER COMM'N	
1. UTILITY PLANT IN SERVICE	\$0	\$248,727	\$248,727	
2. LAND & LAND RIGHTS	0	18,519	18,519	
3. NON-USED AND USEFUL COMPONENTS	0	(530)	(530)	
4. CIAC	0	(117,300)	(117,300)	
5. ACCUMULATED DEPRECIATION	0	(191,651)	(191,651)	
6. AMORTIZATION OF CIAC	0	92,382	92,382	
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>\$3,318</u>	<u>\$3,318</u>	
8. WASTEWATER RATE BASE	<u>\$0</u>	<u>\$53,465</u>	<u>\$53,465</u>	

BREEZE HILL UTILITIES, INC.
TEST YEAR ENDING DECEMBER 31, 1998
ADJUSTMENTS TO RATE BASE

SCHEDULE NO. 1-C
DOCKET NO. 990356-WS
PAGE 1 OF 2

	<u>WATER</u>	<u>WASTEWATER</u>
<u>UTILITY PLANT IN SERVICE</u>		
1. To reflect utility plant per original cost study.	\$82,450	\$249,359
2. To reflect pro forma hydro-pneumatic tank.	16,826	0
3. To reflect average pro forma additions to the utility building.	834	0
4. To reflect pro forma retirement of old hydro-pneumatic tank.	(10,980)	0
5. To reflect pro forma chlorine alarm with automatic switch-over.	2,227	0
6. To reflect pro forma back-up motor for well pump.	456	0
7. To include pro forma meters.	23,035	0
8. To reflect temporary hydro-pneumatic tanks & installation.	3,109	0
9. To reflect pro forma wastewater pump replacement.	0	557
10. To reflect pro forma blower.	0	952
11. To reflect averaging adjustment.	<u>(1,056)</u>	<u>(2,141)</u>
Total	<u>\$116,901</u>	<u>\$248,727</u>
<u>LAND</u>		
1. To reflect original cost of land.	<u>\$2,997</u>	<u>\$18,519</u>
<u>NON-USED AND USEFUL PLANT</u>		
1. To reflect non-used and useful plant.	\$0	(\$41,325)
2. To reflect non-used and useful accumulated depreciation.	<u>0</u>	<u>40,795</u>
Total	<u>\$0</u>	<u>(\$530)</u>
<u>CIAC</u>		
1. To impute CIAC as allowed by Rule 25-30.580(b), F.A.C.	(\$31,433)	(\$117,903)
2. To reflect CIAC averaging adjustment.	<u>0</u>	<u>603</u>
Total	<u>(\$31,433)</u>	<u>(\$117,300)</u>

BREEZE HILL UTILITIES, INC.
TEST YEAR ENDING DECEMBER 31, 1998
ADJUSTMENTS TO RATE BASE

SCHEDULE NO. 1-C
DOCKET NO. 990356-WS
PAGE 2 OF 2

	<u>WATER</u>	<u>WASTEWATER</u>
<u>ACCUMULATED DEPRECIATION</u>		
1. To reflect accumulated depreciation per original cost study.	(\$45,471)	(\$194,452)
2. To reflect pro forma acc. depr. on hydro-pneumatic tank.	(255)	0
3. To reflect pro forma acc. depr. on additions to the utility	(15)	0
4. To reflect pro forma retirement of old hydro-pneumatic tank.	10,980	0
5. To reflect pro forma acc. depr. on chlorine alarm.	(159)	0
6. To reflect pro forma acc. depr. on back-up motor for well	(15)	0
7. To reflect pro forma acc. depr. on meters.	(677)	0
8. To reflect pro forma acc. depr. on temporary hydro tanks.	(47)	0
9. To reflect pro forma acc. depr. on blower.	0	(32)
10. To reflect pro forma acc. depr. on replacement pump.	0	(19)
11. To reflect averaging adjustment.	<u>1,432</u>	<u>2,852</u>
Total	<u>(\$34,227)</u>	<u>(\$191,651)</u>
<u>AMORTIZATION OF CIAC</u>		
1. To reflect accumulated amortization per original cost study.	\$19,604	93,730
2. To reflect averaging adjustment.	<u>(546)</u>	<u>(1,348)</u>
Total	<u>\$19,058</u>	<u>\$92,382</u>
<u>WORKING CAPITAL ALLOWANCE</u>		
1. To reflect 1/8 of test year O & M expenses.	<u>\$2,459</u>	<u>\$3,318</u>

BREEZE HILL UTILITIES, INC. TEST YEAR ENDING DECEMBER 31, 1998 SCHEDULE OF CAPITAL STRUCTURE				SCHEDULE NO. 2 DOCKET NO. 990356-WS					
CAPITAL COMPONENT	PER AUDIT	BALANCE			BALANCE PER COMM.	PERCENT OF TOTAL	COST	WEIGHTED COST	
		SPECIFIC ADJUST-MENTS	BEFORE PRO RATA ADJUSTMEN	PRO RATA ADJUST-MENTS					
1. COMMON STOCK	\$200	\$0	\$200						
2. RETAINED EARNINGS	32,778	0	32,778						
3. PAID IN CAPITAL	14,175	0	14,175						
4. OTHER COMMON EQUITY	<u>0</u>	<u>0</u>	<u>0</u>						
5. TOTAL COMMON EQUITY	\$47,153	\$0	47,153	(8,955)	38,198	29.56%	10.12%	2.99%	
6. LONG TERM DEBT	64,365	0	64,365	(12,224)	52,141	40.35%	6.30%	2.54%	
7. LONG TERM DEBT (Pro Forma)	47,996	0	47,996	(9,115)	38,881	30.09%	9.75%	2.93%	
8. CUSTOMER DEPOSITS	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	6.00%	<u>0.00%</u>	
9. TOTAL	<u>\$159,514</u>	<u>\$0</u>	<u>\$159,514</u>	<u>(\$30,293)</u>	<u>\$129,221</u>	<u>100.00%</u>		<u>8.47%</u>	
RANGE OF REASONABLENESS RETURN ON EQUITY OVERALL RATE OF RETURN						<u>LOW</u> <u>9.12%</u> <u>8.17%</u>	<u>HIGH</u> <u>11.12%</u> <u>8.76%</u>		

BREEZE HILL UTILITIES, INC. TEST YEAR ENDING DECEMBER 31, 1998 SCHEDULE OF WATER OPERATING INCOME			SCHEDULE NO. 3-A DOCKET NO. 990356-WS		
	TEST YEAR PER AUDIT	COMM'N ADJ. TO AUDIT	COMM'N ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$14,538</u>	<u>\$246</u>	<u>\$14,784</u>	<u>\$17,520</u> 118.51%	<u>\$32,304</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	19,390	284	19,674	0	19,674
3. DEPRECIATION (NET)	0	3,777	3,777	0	3,777
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	0	1,650	1,650	788	2,438
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$19,390</u>	<u>\$5,711</u>	<u>\$25,101</u>	<u>\$788</u>	<u>\$25,889</u>
8. OPERATING INCOME/(LOSS)	<u>(\$4,852)</u>		<u>(\$10,317)</u>		<u>\$6,414</u>
9. WATER RATE BASE	<u>\$0</u>		<u>\$75,755</u>		<u>\$75,755</u>
1 RATE OF RETURN	<u>0.00%</u>		<u>-13.62%</u>		<u>8.47%</u>

BREEZE HILL UTILITIES, INC. TEST YEAR ENDING DECEMBER 31, 1998 SCHEDULE OF WASTEWATER OPERATING INCOME			SCHEDULE NO. 3-B DOCKET NO. 990356-WS		
	TEST YEAR PER UTILITY	COMM'N ADJUSTMENTS TO AUDIT	COMM'N ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$11,088</u>	<u>(\$336)</u>	<u>\$10,752</u>	<u>\$26,233</u> 243.98%	<u>\$36,985</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	27,103	(556)	26,547	0	26,547
3. DEPRECIATION (NET)	0	3,069	3,069	0	3,069
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	0	1,661	1,661	1,180	2,841
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING	<u>\$27,103</u>	<u>\$4,174</u>	<u>\$31,277</u>	<u>\$1,180</u>	<u>\$32,457</u>
8. OPERATING INCOME/(LOSS)	<u>(\$16,015)</u>		<u>(\$20,525)</u>		<u>\$4,527</u>
9. WASTEWATER RATE BASE	<u>\$0</u>		<u>\$53,465</u>		<u>\$53,465</u>
1 RATE OF RETURN	<u>0.00%</u>		<u>-38.39%</u>		<u>8.47%</u>

BREEZE HILL UTILITIES, INC.
TEST YEAR ENDING DECEMBER 31, 1998
ADJUSTMENTS TO OPERATING INCOME

	<u>WATER</u>	<u>WASTEWATER</u>
OPERATING REVENUES		
To adjust utility revenues to audited test year amount.	<u>\$246</u>	<u>(\$336)</u>
OPERATION AND MAINTENANCE EXPENSES		
1. Salaries and Wages - Employees		
To bring employee salaries to staff's approved amount.	<u>\$1,490</u>	<u>\$2,150</u>
2. Sludge Removal Expense		
To reflect engineer approved test year sludge expense.	<u>\$0</u>	<u>\$311</u>
3. Purchased Power		
To reflect repression adjustment.	<u>(\$985)</u>	<u>(\$127)</u>
4. Chemicals		
a. To reclassify chemical expense from Account No. 720.	\$0	\$1,222
b. To allow engineer approved chemical expense.	136	60
c. To reflect repression adjustment.	<u>(207)</u>	<u>(75)</u>
Subtotal	<u>(\$71)</u>	<u>\$1,207</u>
5. Materials and Supplies		
To reclassify chemical expense to Account No. 718.	<u>\$0</u>	<u>(\$1,222)</u>
6. Contractual Sevices - Billing		
a. To amortize set-up cost over 5 years.	\$70	\$70
b. To include billing and collections cost.	<u>1,833</u>	<u>1,833</u>
Subtotal	<u>\$1,903</u>	<u>\$1,903</u>
7. Contractual Sevices - Professional		
a. To include DEP permit amortized over 5 years.	\$0	\$600
b. To include consumptive use permit amortized over 10 years.	\$35	\$0
b. To include 5 year amortized CPA initial set-up cost for USOA.	<u>316</u>	<u>316</u>
Subtotal	<u>\$351</u>	<u>\$916</u>
8. Contractual Services - Testing		
To include engineer approved testing amount.	<u>\$1,107</u>	<u>\$0</u>

(O & M EXPENSES CONTINUED ON NEXT PAGE)

BREEZE HILL UTILITIES
TEST YEAR ENDING DECEMBER 31, 1998
BREEZE HILL UTILITIES, INC.

SCHEDULE NO. 3-C
DOCKET NO. 990356-WS
PAGE 2 OF 2

	<u>WATER</u>	<u>WASTEWATER</u>
(O & M EXPENSES CONTINUED)		
9. Contractual Services - Other		
a. To amortize non-recurring expenses over 5 years.	(\$452)	(\$459)
b. To remove contracted expenses which will now be completed by full time employee.	(890)	(2,192)
c. To change contracted operator to utility employee.	<u>(2,700)</u>	<u>(3,600)</u>
Subtotal	<u>(\$4,042)</u>	<u>(\$6,251)</u>
10. Insurance Expenses		
To reflect worker's compensation insurances.	<u>\$531</u>	<u>\$557</u>
TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	<u>\$284</u>	<u>\$556</u>
DEPRECIATION EXPENSE		
1. To reflect test year depreciation calculated per 25-30.140, F.A.C.	\$2,865	\$5,704
2. To reflect test year amortization expense.	(1,092)	(2,697)
3. To reflect non-used and useful test year depreciation.	0	(38)
4. To include depreciation expense on pro forma plant.	<u>2,004</u>	<u>100</u>
Total	<u>\$3,777</u>	<u>\$3,069</u>
TAXES OTHER THAN INCOME		
1. To include regulatory assessment fees on test year revenue.	\$665	\$484
2. To reflect test year real estate taxes.	31	168
3. To adjust payroll tax for approved salaries.	916	971
4. To reflect corporate filing fees.	<u>38</u>	<u>38</u>
Total	<u>\$1,650</u>	<u>\$1,661</u>

BREEZE HILL UTILITIES, INC. TEST YEAR ENDING DECEMBER 31, 1998 ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE		SCHEDULE NO. 3-D DOCKET NO. 990356-WS	
	TOTAL PER PER AUDIT	COMM'N ADJUST.	TOTAL PER COMM'N
(601) SALARIES AND WAGES - EMPLOYEES	\$9,360	\$1,490 [1]	\$10,850
(603) SALARIES AND WAGES - OFFICERS	0	0	0
(604) EMPLOYEE PENSIONS AND BENEFITS	0	0	0
(610) PURCHASED WATER	0	0	0
(615) PURCHASED POWER	2,592	(985) [3]	1,607
(616) FUEL FOR POWER PRODUCTION	0	0	0
(618) CHEMICALS	408	(71) [4]	337
(620) MATERIALS AND SUPPLIES	901	0	901
(630) CONTRACTUAL SERVICES - BILLING	0	1,903 [6]	1,903
(631) CONTRACTUAL SERVICES -	718	351 [7]	1,069
(635) CONTRACTUAL SERVICES - TESTING	467	1,107 [8]	1,574
(636) CONTRACTUAL SERVICES - OTHER	4,155	(4,042) [9]	113
(640) RENTS	94	0	94
(650) TRANSPORTATION EXPENSE	183	0	183
(655) INSURANCE EXPENSE	324	531 [10]	855
(655) REGULATORY COMMISSION EXPENSE	188	0	188
(670) BAD DEBT EXPENSE	0	0	0
(675) MISCELLANEOUS EXPENSES	<u>0</u>	<u>0</u>	<u>0</u>
	\$19,390	\$284	\$19,674

BREEZE HILL UTILITIES, INC. TEST YEAR ENDING DECEMBER 31, 1998 ANALYSIS OF WASTEWATER OPERATION AND MAINTENANCE EXPENSE		SCHEDULE NO. 3-E DOCKET NO. 990356-WS	
	TOTAL PER AUDIT	COMM'N ADJUST- MENT	TOTAL PER COMM'N
(701) SALARIES AND WAGES - EMPLOYEES	\$9,360	\$2,150 [1]	\$11,510
(703) SALARIES AND WAGES - OFFICERS	0	0	0
(704) EMPLOYEE PENSIONS AND BENEFITS	0	0	0
(710) PURCHASED SEWAGE TREATMENT	0	0	0
(711) SLUDGE REMOVAL EXPENSE	309	311 [2]	620
(715) PURCHASED POWER	4,220	(127) [3]	4,093
(716) FUEL FOR POWER PRODUCTION	0	0	0
(718) CHEMICALS	1,204	1,207 [4]	2,411
(720) MATERIALS AND SUPPLIES	2,706	(1,222) [5]	1,484
(730) CONTRACTUAL SERVICES - BILLING	0	1,903 [6]	1,903
(731) CONTRACTUAL SERVICES -	543	916 [7]	1,459
(735) CONTRACTUAL SERVICES - TESTING	1,186	0	1,186
(736) CONTRACTUAL SERVICES - OTHER	6,642	(6,251) [9]	391
(740) RENTS	27	0	27
(750) TRANSPORTATION EXPENSE	183	0	183
(755) INSURANCE EXPENSE	535	557 [10]	1,092
(765) REGULATORY COMMISSION EXPENSES	188	0	188
(770) BAD DEBT EXPENSE	0	0	0
(775) MISCELLANEOUS EXPENSES	0	0	0
	<u>\$27,103</u>	<u>\$(556)</u>	<u>\$26,547</u>

Attachment A

WATER TREATMENT PLANT

USED AND USEFUL DATA

Docket No. 990356-WS

Date 11/04/99

Utility: Bieber Enterprises, Inc. D/b/a Breeze Hill Utilities

- 1) Capacity of Plant = 200 GPM *
- 2) Maximum Daily Flow
(1.1 X 2 X 115 customers) = 253 GPM *
- 3) Average Daily Flow
(1.1 X 115 customers) = 127 GPM *
- 4) Fire Flow Capacity
(4 fire hydrants avail. with NSF) = -0- GPM *

5) Margin Reserve (not to exceed 20% of Average GPM):

- a) Average Number Customers in ERCs = 92
- b) Average Customer Growth in ERCs
for most Recent 5 Years = 3
- c) Construction Time for
Additional Capacity = 5 Years

$$\text{Margin Reserve} = 5b \times 5c \times \frac{2}{5a} = \underline{41} \text{ GPM} *$$

- 6) Excessive Unaccounted for Water = none GPM *
- a) Total Amount -0- GPM = N/a % of Av. GPM Flow
- b) Reasonable Amount -0- GPM = N/a % of Av. GPM Flow

PERCENT USED AND USEFUL FORMULA

$$\left[\frac{2 + 4 + 5 - 6}{1} \right] = \underline{100} \% \text{ Used and Useful}$$

* This is a closed system. To evaluate its readiness to serve on a gallon per minute (GPM) basis is more appropriate.

ORDER NO. PSC-99-2394-FOF-WS
DOCKET NO. 990356-WS
PAGE 52

Robert T. Davis - Engineer

Attachment B

WATER DISTRIBUTION SYSTEM

USED AND USEFUL DATA

Docket No. 990356-WS

Date 11/04/99

Utility: Bieber Enterprises, Inc. D/b/a/ Breeze Hill Utilities

- 1) Capacity 105 ERCs (Number of potential customers without expansion)
- 2) Average number of TEST YEAR Connections = 92 ERCs
- 3) Margin Reserve (Not to exceed 20% of present ERCs)
 - a) Average yearly customer growth in ERCs
for most recent 5 Years = 3 ERCs
 - b) Construction Time for Additional Capacity = 5 Years

(3a) x (3b) = 15 ERCs Margin Reserve

PERCENT USED AND USEFUL FORMULA

$$\frac{(2 + 3)}{1} = \underline{100} \% \text{ Used and Useful}$$

Robert T. Davis - Engineer

Attachment C

WASTEWATER TREATMENT PLANT

USED AND USEFUL DATA

Docket No. 990356-WS

Date 11/04/99

Utility: Bieber enterprises, Inc. d/b/a Breeze Hill Utilities

- 1) Capacity of Plant = 40,000 gallons per day
2) Average Daily Flow = 19,470 gallons per day
3) Margin Reserve (Not to exceed 20% of present customers)
a) Average number of customers in ERCs 92 ERCs
b) Customer yearly customer growth in ERCs
for Most Recent 5 Years Including Test Year 3 ERCs
c) Construction Time for Additional Capacity 5 Years

$$(3b) \times (3c) \times \left[\frac{2}{(3a)} \right] = \underline{3,180} \text{ gallons per day}$$

- 4) Excessive Infiltration N/a gallons per day
a) Total Amount N/a gallons per day N/a % of Av. Daily Flow
b) Reasonable Amount N/a gallons per day N/a % of Av. Daily Flow
c) Excessive Amount N/a gallons per day N/a % of Av. Daily Flow

PERCENT USED AND USEFUL FORMULA

$$\frac{[(2) + (3)] - 4}{1} = \underline{56.63} \% \text{ Used and Useful}$$

Attachment D

WASTEWATER COLLECTION SYSTEM

USED AND USEFUL DATA

Docket No. 990356-WS

Date 11/04/99

Utility: Bieber Enterprises, Inc. d/b/a Breeze Hill Utilities

- 1) Capacity of present collection system 105 ERCs
- 2) Average number of ERCs for the Test Year 92 ERCs
- 3) Margin Reserve (not to exceed 20% of present ERCs):
- a) Average Yearly Customer Growth in ERCs for Most Recent 5 3
- c) Construction Time for Additional Capacity 5 Years

(3a) x (3b) = 15 ERCs Margin Reserve

PERCENT USED AND USEFUL FORMULA

$$\frac{(2 + 3)}{1} = \underline{100} \% \text{ Used and Useful}$$

Robert T. Davis Engineer